

COMMONWEALTH OF MASSACHUSETTS

SUFFOLK, SS.

SUPREME JUDICIAL COURT
FOR SUFFOLK COUNTY
NO. SJ-2000-0475

LINDA L. RUTHARDT, as she is)
COMMISSIONER OF INSURANCE of the)
COMMONWEALTH OF MASSACHUSETTS,)
Plaintiff,)
v.)
LUMBER MUTUAL INSURANCE COMPANY,)
SEACO INSURANCE COMPANY, and)
NORTH AMERICAN LUMBER INSURANCE)
COMPANY.)
Defendants.)

RECEIVER'S SECOND STATUS REPORT

I, Linda L. Ruthardt, Massachusetts Commissioner of Insurance, in my capacity as Receiver (the "Receiver") of Lumber Mutual Insurance Company, SEACO Insurance Company and North American Lumber Insurance Company (collectively, "Lumber"), hereby submit this Second Status Report concerning the rehabilitation of Lumber. This report supplements and updates the information contained in my First Status Report filed with the Court on January 5, 2001.

1. 2000 Financial Results: For the year which ended December 31, 2000, Lumber experienced a net underwriting loss of \$64,179,534 on a consolidated basis. After consideration of investment income and federal income tax, its consolidated net operating loss was \$52,933,353. Realized capital gains of \$9,742,738 further reduced the net operating loss to \$43,190,165. Lumber's statutory surplus (net worth) stood on December 31, 2000 at \$10,929,103. Copies of the 2000 Annual Statements for each of the three Lumber insurers domiciled in Massachusetts are attached hereto as Exhibits "A", "B" and "C". The combined financial statements are presently being audited by Ernst & Young. My consulting actuaries with the firm of Tillinghast have examined the reserves established by Lumber for unpaid losses and unpaid loss adjustment expenses, and have opined that such reserves are reasonable.

2. 2001 Business Plan: Lumber has been operated pursuant to a run-off Business Plan, a copy of which was originally attached to my First Status Report. Based upon operating results for the first four months of 2001, the Business Plan has now been revised. A copy of the revised Business Plan ("the 2001 Plan") is attached hereto as Exhibit "D". The most significant revisions include an increase of \$1.4 million for projected investment income, a decrease of \$2.0 million for projected operational expenses, and a decrease of \$1.5 million for projected written premium (attributable to premium audits). The 2001 Plan's underlying assumptions reasonably reflect Lumber's

current status in run-off. The primary variables which will impact upon the achievement of the 2001 Plan's projected financial results include ultimate loss development, the ability to successfully manage operational expenses, and the assumptions with respect to the collectibility of earned premium. Lumber's actual operating results are compared to the 2001 Plan on a monthly basis.

3. April 30, 2001 Financial Results: For the four months which ended April 30, 2001, Lumber experienced a net underwriting loss of \$3,140,375 on a consolidated basis. However, after applying investment income earned for the period and distributions from subsidiaries, Lumber's statutory surplus (net worth) at April 30, 2001 increased to \$12,524,451, which is consistent with the 2001 Plan. Year to date operating expenses are significantly lower than the budgeted amounts included in the run-off Business Plan attached to the First Status Report.

4. Status of Claim Payments: All payments to Lumber's policyholders and to its other creditors are continuing to be made in the normal course, in accordance with the Receivership Order. As of May 31, 2001 there were pending claims related to approximately 3,600 incidents under Lumber's policies of insurance. A significant percentage of the pending claims are workers' compensation claims, a number of which should be expected to remain open for a substantial period of time. Loss payments made and loss reserves established during the first

quarter of 2001 have been compared to Tillinghast's projections for that period. Net of reinsurance recoverables, Lumber's actual results were essentially consistent with Tillinghast's projections for the first quarter.

5. Loss portfolio reinsurance transactions: As outlined in my First Status Report, Lumber received proposals from two different reinsurers for loss portfolio transfers. Following review of those proposals by Tillinghast, I concluded that the proposed reinsurance programs were not in the best interest of the policyholders and other creditors of Lumber, and have therefore declined both proposals.

6. Sale of Lumber's home office property: As outlined in my First Status Report, Lumber owned a 65,974 square foot office building in Framingham, Massachusetts, a part of which served as its corporate headquarters facility. The sale of this property to Carruth Capital, LLC, and the leaseback of the third floor of the facility to Lumber were approved by the Court's Order entered on February 13, 2001. The sale of the property was completed on March 8, 2001. Lumber netted \$6,256,242 from the sale in excess of the value for which the property was carried prior to the inception of this proceeding.

7. Settlement of obligations related to former agent: In 1992, Lumber Mutual Insurance Company ("Lumber Mutual") guaranteed a loan made by the Laconia Savings Bank ("the Bank")

to Gordon & Powers Insurance Agency, Inc. ("Gordon & Powers") an agent of its affiliate, SEACO Insurance Company. The loan was further secured by the assets of Gordon & Powers, and securities owned by Lumber Mutual. The value of Gordon & Powers declined to less than the outstanding loan, creating a situation in which the Bank threatened to draw on Lumber Mutual's guarantee. With my approval, Lumber Mutual purchased the promissory note from the Bank, in consideration of an assignment of the note and security interest. In March, 2001, Gordon & Powers was sold for \$825,000. The entire proceeds were applied to the loan balance as payment in full. Lumber's December 31, 2000 financial statements reflected a \$1,000,000 liability reserve for this obligation, so that the net effect of these transactions was a positive contribution of \$316,000, after expenses.

8. Conclusion: Based upon the foregoing, I continue to believe that although its financial condition is impaired, Lumber is not insolvent. Financial results for the first four months of 2001 are consistent with the 2001 Plan. In addition, first quarter loss payments were consistent with Tillinghast's projections. I therefore believe that it is appropriate for Lumber to continue to meet all of its obligations in the normal course. I will closely monitor Lumber's operating results as

compared to the 2001 Plan, and will report to the Court on a quarterly basis during 2001.

Respectfully submitted,

Linda L. Ruthardt
Receiver

Dated: June __, 2001